



VALUATION & ADVISORY SERVICES

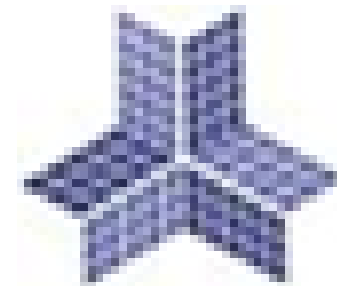
What can we do to fix housing?

Charlotte Economics Club

The Charlotte City Club – Oct 11, 2011
121 West Trade St., Charlotte, NC



K.C. Conway, MAI, CRE
Executive Managing Dir. R.E. Analytics
Colliers International
KC.Conway@Colliers.com



What can we do to fix housing?

The 5 Big Picture Pieces

- Understand that not everything is as it appears.

Dig beneath the surface.

Look back at what history tells us – 1944 FHOLC report to Congress

- Study the history, and dissect how we got here.

We have yet to fully diagnose what really ails housing.

- It's all about repairing the economy and jobs before anything else.

America's "Lost Decade" and correlation to homeownership rate

Housing & the economy will recover 1st in the "Education Ctr." MSAs

- It's also about spending and our fiscal mess long before GSE reform.

The U.S isn't that different than many EU countries in fiscal crisis.

We can't buy what we can't afford.

Can we really fix housing when we are so overleveraged?

- Understand the value of our banks and don't regulate them into oblivion

Bank of America is the canary in the coal mine.

Essentially, we now have only a government controlled mortgage mkt

Big Picture Piece #1: Not everything is as it appears!



Front & Rear Views of actual 2007 Fannie Mae mortgage fraud case



Bank financed
log cabin &
lake-community
projects.

Cost to fix?

It's not just an
issue of the
market declined



History Tells us How to Deal with Housing Crisis 1944 Report to Congress from FHLOMC

*John F. Conway, Jr.
2067 Dexter
Denver 7, Colorado*

A REPORT

TO THE CONGRESS OF THE UNITED STATES

Pursuant to the Independent Offices Appropriation
Act, 1944, Public Law 90, 78th Congress

HOME OWNERS' LOAN CORPORATION

John H. Fahey
Federal Home Loan Bank Commissioner

Spotlight: Foreclosures 1929-1932 Vs 2007-2011

Is history repeating itself 67 years later?

Is History Repeating Itself 67 Years Later?

A look at a little-known, 1944 report to Congress regarding a plan to liquidate the Home Owner's Loan Corporation.

Lesson #1:

Creation of programs without an upfront plan to unwind them results in programs morphing into entities that take on a life of their own that have both a duration and cost that far exceeds the plan and original intention.

Lesson #2:

Programs that are designed without an understanding of the problem are doomed to be ineffective.

Lesson #3:

If at first Congress does not succeed, it will create another program.

Lesson #4:

Why the losses from the HOLC were relatively low.

This 1944 report to Congress cites Americans' intent to pay their mortgage debt obligations, regardless of the home value, as critical to the HOLC having losses of only \$255 million against the \$3.484 billion investment by Congress between 1933 and 1944 (7.5% of total appropriated capital or less than 1% per year during its 11 years in existence).

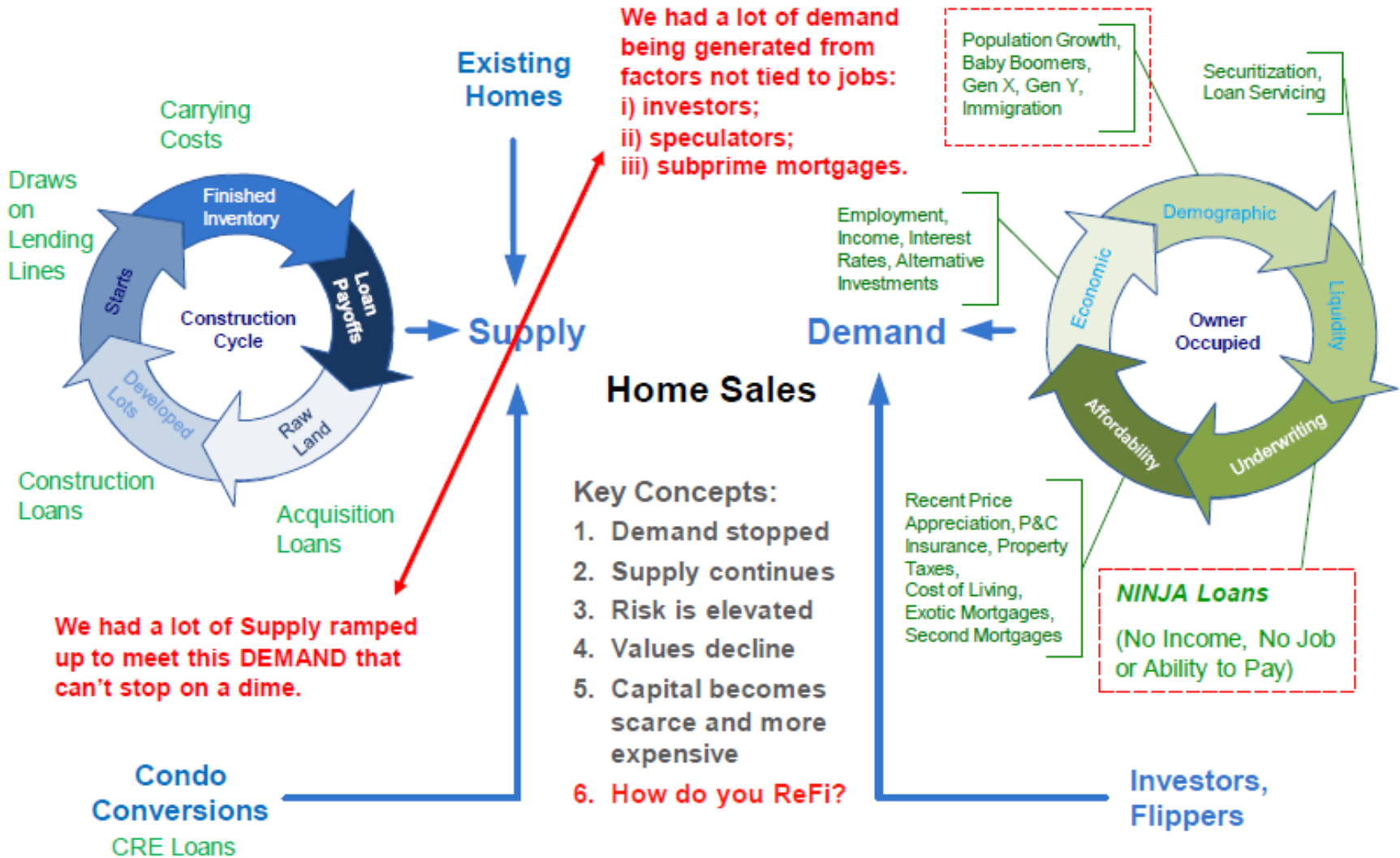
Great Depression Mortgage Crisis 1929-1933		Great Recession Mortgage Crisis 2007-2010	
Annual Peak Housing Starts	900,000	Annual Peak Housing Starts	1,800,000.00
Peak-to-Trough HPA decline	25.9%	Peak-to-Trough HPA decline	26.1%
Peak In Foreclosures	1933 @ 1,000/day	Peak In Foreclosures	2010 @ 10,410/day

by KC Conway, MAI, CRE
KC.Conway@Colliers.com

The Big Picture – Part II:

How Did We Get Here?

Misreading Demand Drivers – Again and Again!



Understand the housing, banking and mortgage securitization entanglement

This was the S&L problem in 1980s

Will Community Bank's A&D loans be the 1980s S&L raw land problem?



Market Characteristics

- "Unentitled" Land (No Zoning, etc.)
- Entrepreneurial aspect of the "land business."

- Original land owner sees encroaching urban development & sells after obtaining entitlements/zoning, etc.
- Fewer barriers to entry = Greater risk of oversupply:
Atlanta vs. CA or DC/NoVA

- Speculative vs. Pre-Sale
- Key Metric: Months Supply by Price Point

- Public builder activity in a market (e.g., concessions)
- Must compete with existing home listings.

- Mortgage products and market.
- Less about rate and more about product/payment.

Lending Characteristics

- Limited risk to banks
- Low LTV (50% max.)

A&D Loans

- Community bank focus.
- Land is local.
- Where they can compete.
- Riskiest piece of home building.
- Both development and market risk.
- Typical structure is a percent of COST versus LTV (80%-90% of costs).

Construction Loans

- Less risky than A&D:
 - (a) Builder has cash at risk (20%+/start).
 - (b) Covenants help protect against too much "spec" building.
 - (c) LTV risk is a shorter period (months) vs. land (years).
 - (d) Prices can be reduced to move inventory w/o loss to bank.

- Key metric: Pipeline or Utilization Ratio
- Here is your **EARLY WARNING:** Ratio > 70%

Don't forget about HELOCs. If a home drops 20% in value, is there value to cover the HELOC?

We have a back-up occurring:

As the mtg mkt seizes-up and homes don't sell; builders don't take-down lots; and A&D loans become a material concern.



Big Picture Part III - It's the Economy & Understanding What Happened to the Jobs

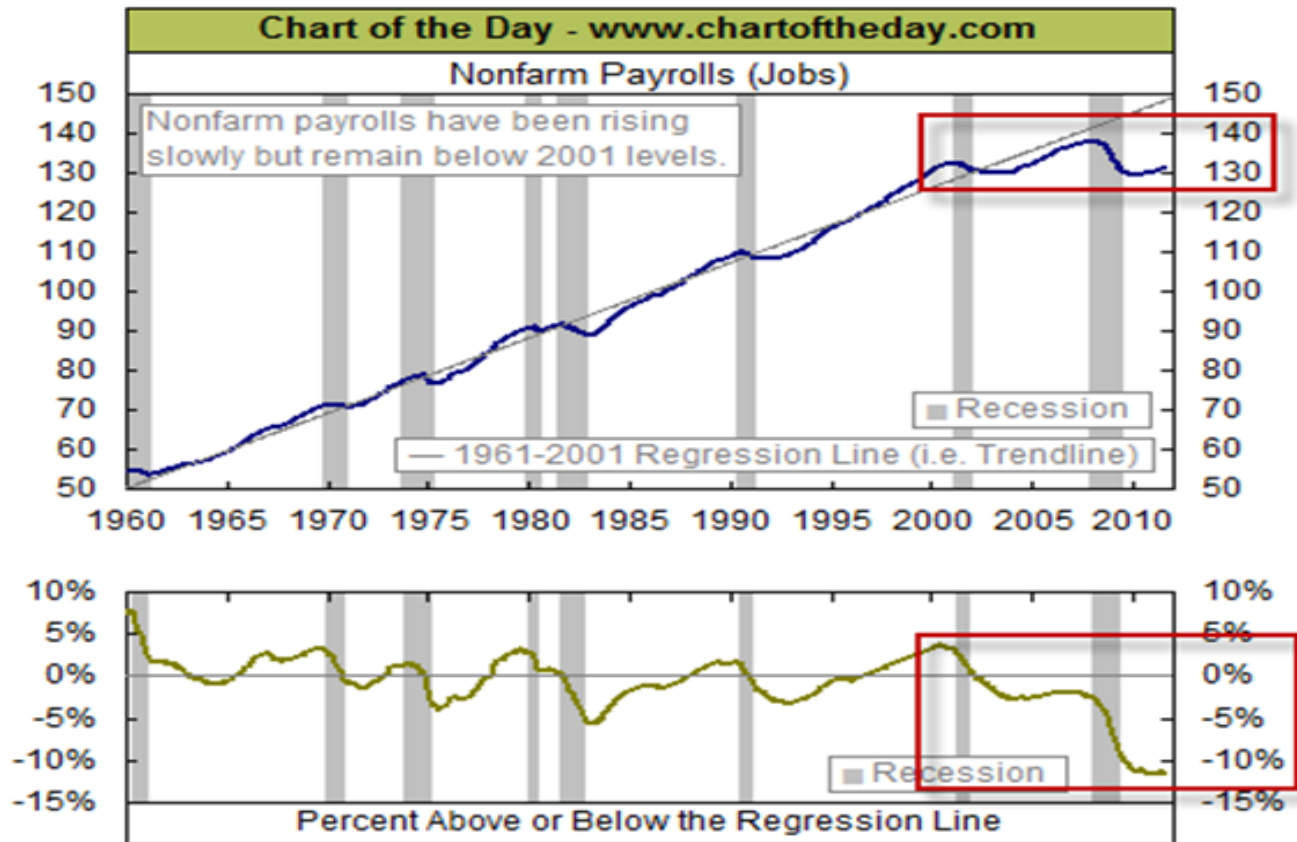


America's Lost Decade of Job Growth

1st Decade of Negative Job Growth

We are Back to 2001 Payrolls

Decade	Job Growth (millions)	% Ch
1940s	11.927	38%
1950s	10.744	25%
1960s	16.902	31%
1970s	19.624	28%
1980s	18.351	20%
1990s	21.630	20%
2000s	-1.179	-1%



How does job loss manifest itself in housing?

A decline in the rate of Homeownership (68.9% peak to 65.1% - Q2 2011)

U.S. Homeownership Rate

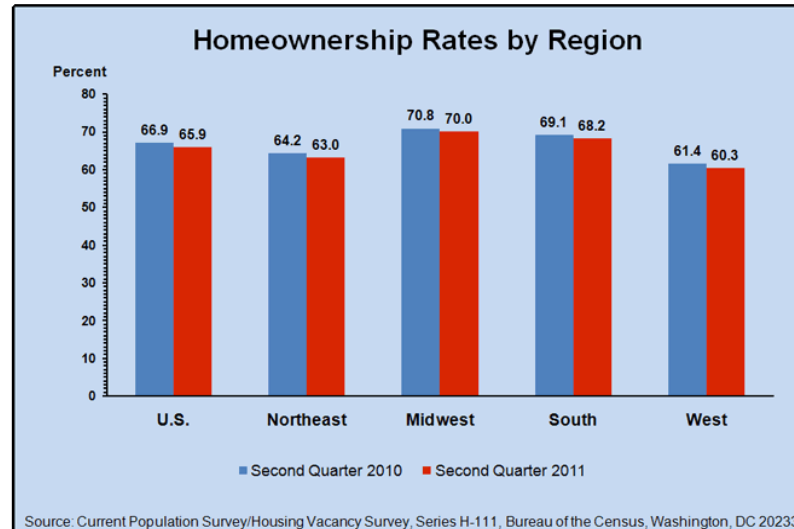
	1990	2005	2010
U.S. overall	63.9%	68.9%	66.9%
Top 10 States - 2005			

West Virginia	72.0	81.3	79.0
Mississippi	69.4	78.8	74.8
Alabama	68.4	76.6	73.2
Minnesota	68.0	76.5	72.6
Michigan	72.3	76.4	74.5
Delaware	67.7	75.8	74.7
Indiana	67.0	75.0	71.2
Idaho	69.4	74.2	72.4
Vermont	72.6	74.2	73.6
New Hampshire	65.0	74.0	74.9

NC Homeownership 1990 Vs 2005 Vs 2010:
 69% 70.9% 69.5%

Bottom 10 States - 2005

Georgia	64.3	67.9	67.1
Washington	61.8	67.6	64.4
Alaska	58.4	66.0	65.7
Texas	59.7	65.9	65.3
Massachusetts	58.6	63.4	65.3
Nevada	55.8	63.4	59.7
Rhode Island	58.5	63.1	62.8
Hawaii	55.5	59.8	56.1
California	53.8	59.7	56.1
New York	53.3	55.9	54.5

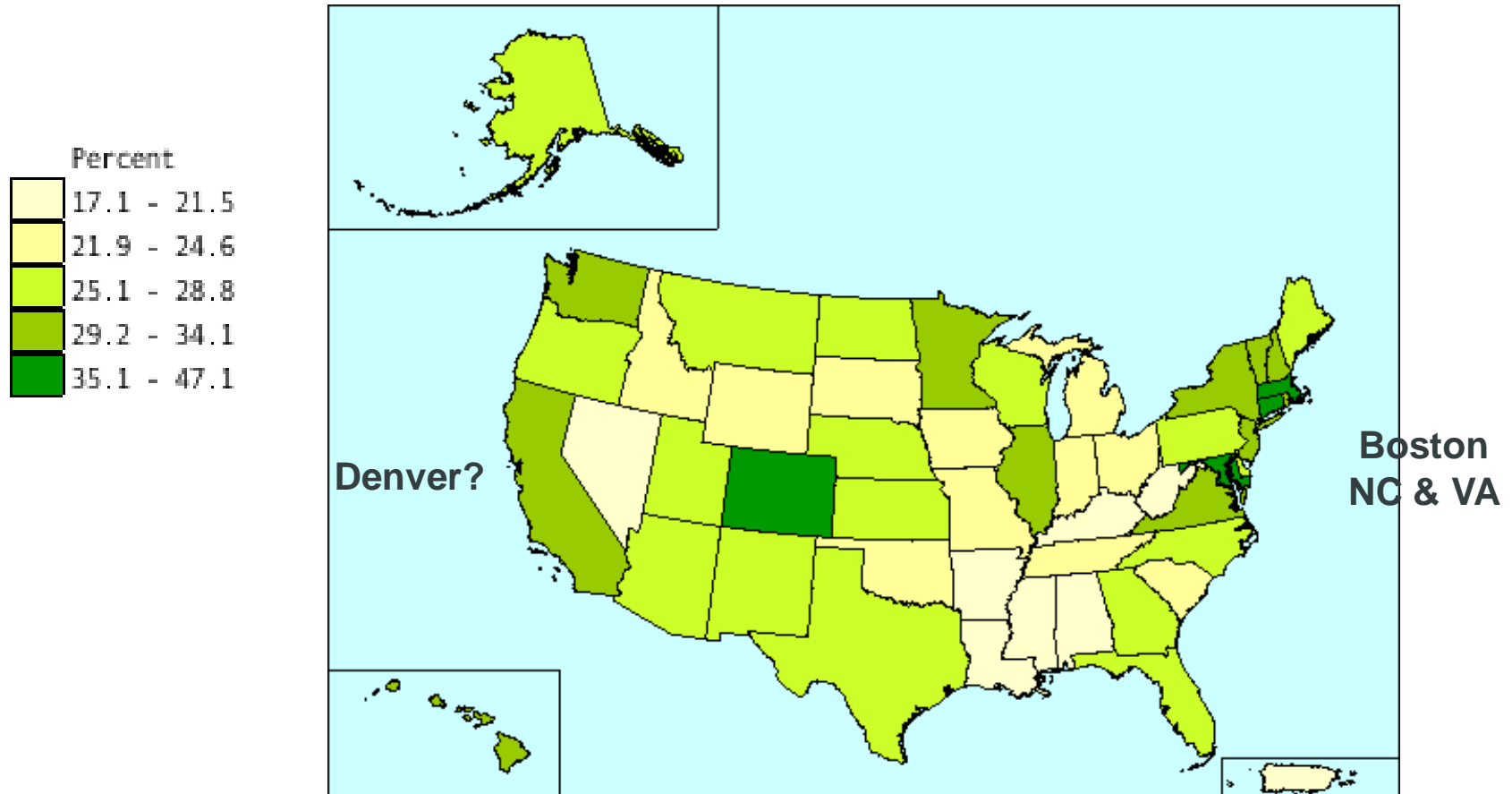


The good news on the Jobs front...

Returning “Intellectual Property Mfg” seeks “Education Center MSAs

North Carolina is a beneficiary of this development.

Housing will recover first in the “Education Center” MSAs



R.E. will outperform in the “education center” markets.

States with the Most Educated Labor Force

NC ranks among the top 25

U.S. States with most Educated Labor Force			
Rank	State	% Labor Force with College Degree or more	% Labor Force with Advance Degree
1	District of Columbia	48.5%	28.0%
2	Massachusetts	38.2%	16.4%
3	Colorado	35.9%	12.7%
4	Maryland	35.7%	16.0%
5	Connecticut	35.6%	12.5%
6	New Jersey	34.5%	12.9%
7	Virginia	34.0%	14.1%
8	New York	32.4%	14.0%
9	New Hampshire	32.0%	11.2%
10	Minnesota	31.5%	10.3%
11	Illinois	30.6%	11.7%
23	North Carolina	26.5%	8.8%

Source: U.S. 2010 Census & Statistical Abstract

Big Picture Part IV - It's the Spending too

It will take 100% of avg. U.S. Household Income to...

Americans owe \$98,141,000,000,000 or
\$319,587 per man, woman and child.

TOTAL U.S. DEBT: All Sources (Federal, State, Municipal, & Consumer)		
DEBT CATEGORY	U.S. TOTAL	PER CAPITA \$ AMT
Mid-2011 Incurred U.S. Debt	14,300,000,000,000	\$46,567 ←
GAO Committed/Unfunded Debt	64,000,000,000,000	\$208,410
Subtotal:	78,300,000,000,000	\$254,977
All 50 States Incurred Debt	1,004,000,000,000	\$3,269
All 50 States Unfunded Pension Debt	3,137,000,000,000	\$10,215
Subtotal:	4,141,000,000,000	\$13,485
Total Consumer Debt (auto and credit cards)	2,400,000,000,000	\$7,815
Total Home Mortgage Debt (source: BEA)	10,300,000,000,000	\$33,541
Subtotal:	12,700,000,000,000	\$41,356
Total U.S. Debt (Gov. & Consumer)	98,141,000,000,000	\$319,587 ←

Source: BEA, Federal Reserve, Treasury Dept., U.S. Census Bureau, & PEW Ctr.

Housing Affordability & Cost of Living

Cost of Living Index for U.S. (2010 Census Data)

Rank	MSA	Population	Cost of Living Index	Median HouseHold Income
10 Most Expensive U.S. Metro Areas to Live:				
1	New York-Northern New Jersey-Long Island, NY-	19,069,796	218.3	\$63,553
2	Honolulu, HI Metro Area	907,574	170.5	67,066
3	San Francisco-Oakland-Fremont, CA Metro Are	4,317,853	163.6	74,876
4	San Jose-Sunnyvale-Santa Clara, CA Metro Are	1,839,883	150.0	85,020
5	Bridgeport-Stamford-Norwalk, CT Metro Area	901,208	147.4	81,114
6	Washington-Arlington-Alexandria, DC-VA-MD-W	5,476,241	140.9	84,424
7	Fairbanks, AK Metro Area	98,660	138.1	65,121
8	Los Angeles-Long Beach-Santa Ana, CA Metro .	12,874,797	133.5	58,987
9	Anchorage, AK Metro Area	374,553	130.7	69,317
10	San Diego-Carlsbad-San Marcos, CA Metro Are	3,053,793	130.7	62,901
10 Most Affordable U.S. Metro Areas to Live:				
1	Springfield, MO Metro Area	431,768	87.2	41,632
2	Fayetteville-Springdale-Rogers, AR-MO Metro A	460,769	86.8	45,757
3	McAllen-Edinburg-Mission, TX Metro Area	741,152	86.3	30,076
4	Waco, TX Metro Area	233,378	86.2	40,038
5	Springfield, IL Metro Area	207,775	86.1	51,001
6	Brownsville-Harlingen, TX Metro Area	396,371	86.0	30,034
7	Sherman-Denison, TX Metro Area	120,030	86.0	45,171
8	Fort Smith, AR-OK Metro Area	293,053	85.1	37,363
9	Killeen-Temple-Fort Hood, TX Metro Area	379,231	84.8	46,183
10	Pueblo, CO Metro Area	157,224	84.1	40,805

NY, HI,
AK & CA

TX
and the
Midwest

Excess Housing is not where there is Demand or Affordability

Has anybody picked up on this mismatch yet?

Where will the jobs be?

The Education Centers concentrated in NE & Mid-Atlantic

Where is housing affordable?

Texas and the Midwest.

Where are the foreclosures & the excess housing?

10 States (coastal and not education centers)

#1 - Nevada	# 6 - Michigan
#2 - Arizona	# 7 - Florida
#3 - California	# 8 - Georgia
#4 - Utah	# 9 - Illinois
#5 - Idaho	#10 – Colorado

Too bad we can't just move the excess housing to where it's needed? There is one solution to the housing crisis.

U.S. States with Highest Foreclosure Rates - June 2011

Source: RealtyTrac

1. Nevada

→ Rate: One in every 114 households
Properties with filings in June: 10,007
Change from May 2011: -9.35%
Change from June 2010: -22.06%

6. Michigan

Rate: One in every 352 households
Properties with filings in June: 12,919
Change from May 2011: -11.60%
Change from June 2010: -24.54%

2. Arizona

Rate: One in every 205 households
Properties with filings in June: 13,447
Change from May 2011: 2.48%
Change from June 2010: -6.77%

7. Florida

Rate: One in every 372 households
Properties with filings in June: 23,769
Change from May 2011: -23.85%
Change from June 2010: -53.89%

3. California

Rate: One in every 248 households
Properties with filings in June: 54,087
Change from May 2011: 4.20%
Change from June 2010: -21.74%

8. Georgia

← Rate: One in every 418 households
Properties with filings in June: 9,715
Change from May 2011: -7.50%
Change from June 2010: -19.29%

4. Utah

Rate: One in every 294 households
Properties with filings in June: 3,237
Change from May 2011: 24.02%
Change from June 2010: -9.81%

9. Illinois

Rate: One in every 480 households
Properties with filings in June: 11,014
Change from May 2011: 4.16%
Change from June 2010: -25.24%

5. Idaho

Rate: One in every 344 households
Properties with filings in June: 1,881
Change from May 2011: 33.59%
Change from June 2010: -16.51%

10. Colorado

Rate: One in every 498 households
Properties with filings in June: 4,357
Change from May 2011: 4.06%
Change from June 2010: -5.10%

The Big Picture – Part V:

What to Understand about US R.E. Debt & our banks?

We are far from being out of the woods!

#1: US Financial Institutions

50% / \$1.6 Trillion

#2: CMBS

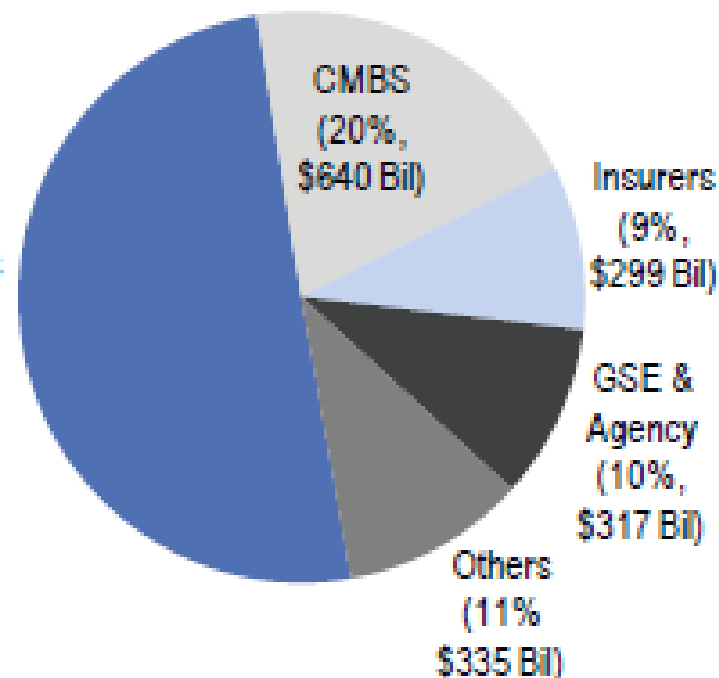
- 20% / \$640 billion
- < 1/2 that of US Banks

Q. What was the total outstanding CRE debt in 1998?

A. \$800 billion

We did not quadruple the physical amount of US Real Estate in 12 years. This crisis is an OVERLEVERAGE event.

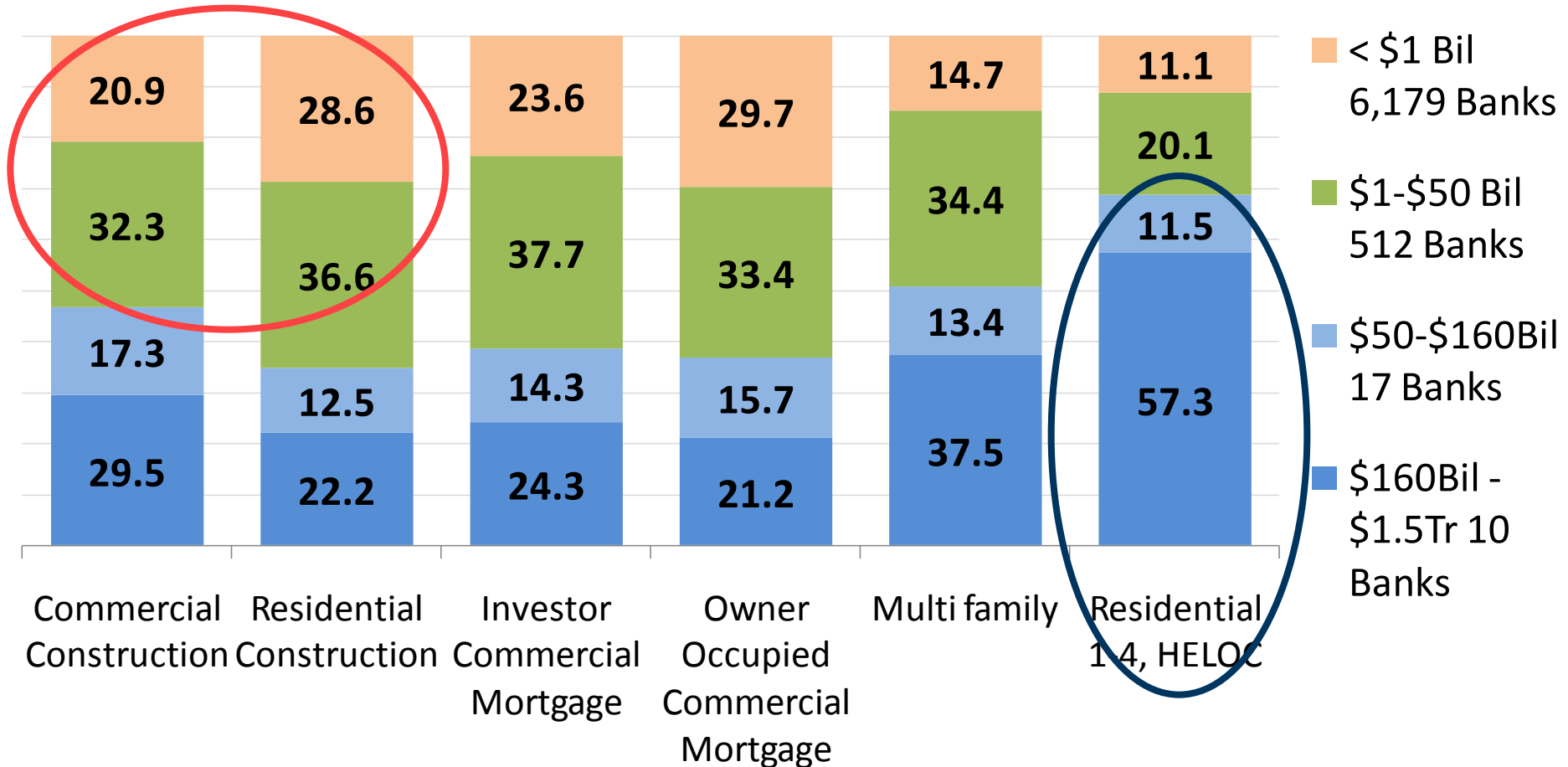
Comm. Banks
(50%,
\$1.6 Tril)



Federal Reserve; data as of 3Q10

Not all Banks are Created Alike!

What are the types of CRE Debt in Banks?



Why the mortgage “put-backs” are so material to the large banks

Bank Failures by Total Count YTD

76 Failures YTD – thru Oct 7, 2011

Bank Failures By Date: 76 YTD 2011

No.	Bank Name	State	Closing Date
76	SunCity Bank	MO	7-Oct-11
75	The River Bank	MN	7-Oct-11
74	First international Bank	TX	30-Sep-11
73	Citizens Bank of Northern California	CA	23-Sep-11
72	Bank of the Commonwealth	VA	23-Sep-11
71	First National Bank of Florida	FL	9-Sep-11
70	CreekSide Bank	GA	2-Sep-11
69	Patriot Bank of Georgia	GA	2-Sep-11
68	First Choice Bank	IL	19-Aug-11
67	First Southern National Bank	GA	19-Aug-11
66	Lydian Private Bank	FL	19-Aug-11
65	Public Savings Bank	PA	18-Aug-11
64	The First National Bank of Olathe	KS	12-Aug-11
63	Bank of Whitman	WA	5-Aug-11
62	Bank of Shorewood	IL	5-Aug-11
61	Integra Bank National Association	IN	29-Jul-11
60	BankMeridian, N.A.	SC	29-Jul-11
59	Virginia Business Bank	VA	29-Jul-11
58	Bank of Choice	CO	22-Jul-11
57	LandMark Bank of Florida	FL	22-Jul-11
56	Southshore Community Bank	FL	22-Jul-11
55	Summit Bank	AZ	15-Jul-11
54	First Peoples Bank	FL	15-Jul-11
53	High Trust Bank	GA	15-Jul-11
52	One Georgia Bank	GA	15-Jul-11
51	Signature Bank	CO	8-Jul-11
50	Colorado Capital Bank	CO	8-Jul-11
49	First Chicago Bank & Trust	IL	8-Jul-11
48	Mountain Heritage Bank	GA	24-Jun-11
47	First Commercial Bank of Tampa Bay	FL	17-Jun-11
46	McIntosh State Bank	GA	17-Jun-11
45	Atlantic Bank and Trust	SC	3-Jun-11
44	First Heritage Bank	WA	27-May-11
43	Summit Bank	WA	20-May-11
42	First Georgia Banking Company	GA	20-May-11
41	Atlantic Southern Bank	GA	20-May-11
40	Coastal Bank	FL	6-May-11
39	Community Central Bank	MI	29-Apr-11
38	The Park Avenue Bank	GA	29-Apr-11
37	First Choice Community Bank	GA	29-Apr-11
36	Cortez Community Bank	FL	29-Apr-11
35	First National Bank of Central Florida	FL	29-Apr-11
34	Heritage Banking Group	MS	15-Apr-11
33	Rosemount National Bank	MN	15-Apr-11
32	Superior Bank	AL	15-Apr-11
31	Nexity Bank	AL	15-Apr-11
30	New Horizons Bank	GA	15-Apr-11
29	Bartow County Bank	GA	15-Apr-11
28	Nevada Commerce Bank	NV	8-Apr-11
27	Western Springs National Bank and T	IL	8-Apr-11
26	The Bank of Commerce	IL	25-Mar-11
25	Legacy Bank	WI	11-Mar-11
24	First National Bank of Davis	OK	11-Mar-11
23	Valley Community Bank	IL	25-Feb-11
22	San Luis Trust Bank, FSB	CA	18-Feb-11
21	Charter Oak Bank	CA	18-Feb-11
20	Citizens Bank of Effingham	GA	18-Feb-11
19	Habersham Bank	GA	18-Feb-11
18	Canyon National Bank	CA	11-Feb-11
17	Badger State Bank	WI	11-Feb-11
16	Peoples State Bank	MI	11-Feb-11
15	Sunshine State Community Bank	FL	11-Feb-11
14	Community First Bank Chicago	IL	4-Feb-11
13	North Georgia Bank	GA	4-Feb-11
12	American Trust Bank	GA	4-Feb-11
11	First Community Bank	NM	28-Jan-11
10	FirsTier Bank	CO	28-Jan-11
9	Evergreen State Bank	WI	28-Jan-11
8	The First State Bank	OK	28-Jan-11
7	United Western Bank	CO	21-Jan-11
6	The Bank of Asheville	NC	21-Jan-11
5	CommunitySouth Bank & Trust	SC	21-Jan-11
4	Enterprise Banking Company	GA	21-Jan-11
3	Oglethorpe Bank	GA	14-Jan-11
2	Legacy Bank	AZ	7-Jan-11
1	First Commercial Bank of Florida	FL	7-Jan-11

Bank Failures by State

Georgia Still Leads with 19 followed by FL (11), IL (7), CO (5) & CA (4).

2011 Bank Failures By State: GA #1

No.	Bank Name	State	Closing Date
2	Superior Bank	AL	15-Apr-11
1	Nexity Bank	AL	15-Apr-11
2	Summit Bank	AZ	15-Jul-11
1	Legacy Bank	AZ	7-Jan-11
4	Citizens Bank of Northern	CA	23-Sep-11
3	San Luis Trust Bank, FSB	CA	18-Feb-11
2	Charter Oak Bank	CA	18-Feb-11
1	Canyon National Bank	CA	11-Feb-11
5	Bank of Choice	CO	22-Jul-11
4	Signature Bank	CO	8-Jul-11
3	Colorado Capital Bank	CO	8-Jul-11
2	FirsTier Bank	CO	28-Jan-11
1	United Western Bank	CO	21-Jan-11
11	First National Bank of Flor	FL	9-Sep-11
10	Lydian Private Bank	FL	19-Aug-11
9	LandMark Bank of Florida	FL	22-Jul-11
8	Southshore Community B	FL	22-Jul-11
7	First Peoples Bank	FL	15-Jul-11
6	First Commercial Bank of	FL	17-Jun-11
5	Coastal Bank	FL	6-May-11
4	Cortez Community Bank	FL	29-Apr-11
3	First National Bank of Cen	FL	29-Apr-11
2	Sunshine State Communit	FL	11-Feb-11
1	First Commercial Bank of	FL	7-Jan-11

Source: FDIC – Thru Oct 7th

NC has had 1 bank failure in 2011 – Bank of Asheville

19	CreekSide Bank	GA	2-Sep-11
18	Patriot Bank of Georgia	GA	2-Sep-11
17	First Southern National B	GA	19-Aug-11
16	High Trust Bank	GA	15-Jul-11
15	One Georgia Bank	GA	15-Jul-11
14	Mountain Heritage Bank	GA	24-Jun-11
13	McIntosh State Bank	GA	17-Jun-11
12	First Georgia Banking Cor	GA	20-May-11
11	Atlantic Southern Bank	GA	20-May-11
10	The Park Avenue Bank	GA	29-Apr-11
9	First Choice Community E	GA	29-Apr-11
8	New Horizons Bank	GA	15-Apr-11
7	Bartow County Bank	GA	15-Apr-11
6	Citizens Bank of Effinghan	GA	18-Feb-11
5	Habersham Bank	GA	18-Feb-11
4	North Georgia Bank	GA	4-Feb-11
3	American Trust Bank	GA	4-Feb-11
2	Enterprise Banking Comp	GA	21-Jan-11
1	Oglethorpe Bank	GA	14-Jan-11
7	First Choice Bank	IL	19-Aug-11
6	Bank of Shorewood	IL	5-Aug-11
5	First Chicago Bank & Trus	IL	8-Jul-11
4	Western Springs National	IL	8-Apr-11
3	The Bank of Commerce	IL	25-Mar-11
2	Valley Community Bank	IL	25-Feb-11
1	Community First Bank Ch	IL	4-Feb-11
1	Integra Bank National Ass	IN	29-Jul-11

1	The First National Bank of	KS	12-Aug-11
2	Community Central Bank	MI	29-Apr-11
1	Peoples State Bank	MI	11-Feb-11
2	The River Bank	MN	7-Oct-11
1	Rosemount National Bank	MN	15-Apr-11
1	SunCity Bank	MO	7-Oct-11
1	Heritage Banking Group	MS	15-Apr-11
1	The Bank of Asheville	NC	21-Jan-11
1	First Community Bank	NM	28-Jan-11
1	Nevada Commerce Bank	NV	8-Apr-11
2	First National Bank of Dav	OK	11-Mar-11
1	The First State Bank	OK	28-Jan-11
1	Public Savings Bank	PA	18-Aug-11
3	BankMeridian, N.A.	SC	29-Jul-11
2	Atlantic Bank and Trust	SC	3-Jun-11
1	CommunitySouth Bank &	SC	21-Jan-11
1	First international Bank	TX	30-Sep-11
2	Bank of the Commonwealt	VA	23-Sep-11
1	Virginia Business Bank	VA	29-Jul-11
3	Bank of Whitman	WA	5-Aug-11
2	First Heritage Bank	WA	27-May-11
1	Summit Bank	WA	20-May-11
3	Legacy Bank	WI	11-Mar-11
2	Badger State Bank	WI	11-Feb-11
1	Evergreen State Bank	WI	28-Jan-11

Source: FDIC – Thru Oct 7th

Bank Failures – Historical Perspective

You judge if we have “Extend & Pretend”

Bank Performance 1930-1933

Source: Federal Reserve Bank of Boston

	National Banks		State Banks		Total Banks
	Federal Reserve Member Bank	Nonmember Bank	Nonmember Bank	Total State Banks	
1930	28,828	18,521	16,776	35,297	64,125
1931	27,430	17,406	14,181	31,587	59,017
1932	22,318	13,538	10,448	23,986	46,304
1933	20,813	12,226	7,412	19,638	40,451

US Bank Failures: 1934-July 2011

Source: FDIC

Decade:	# of Failed banks	High/Year	Low/Year
1934-1940	312	75 / 1937	9 / 1934
1940-1950	99	43 / 1940	1 / 1946
1950-1960	28	5 / 1955	2 / 1951
1960-1970	44	9 / 1969	1 / 1962
1970-1980	79	17 / 1976	2 / 1972
1980-1990	2,036	534 / 1989	22 / 1980
1990-2000	925	382 / 1990	1 / 1997
2000-2010	202	140 / 2009	0 / 2005 & '06
2010	157		
2011 (Jan-July)	55		

Key Notes:

23,674 banks were closed **1929-1933** (We only have 7,575 banks & 7,800 credit unions today, or a total of 15,375 financial institutions).

3,625 banks have been closed **1934-July 2011**

2,369 banks closed during the S&L Crisis **1986-1994**

390 banks have been closed during this Financial Crisis **2008-Sept 2011**


FHA has a 35% market share today Vs 7% in 2007 / Banks make the HELOCs

Q. Where are we without banks in the mortgage lending business?

A. With a Gov controlled mortgage market just like after Great Depression

So where are we with respect to the economy?

How does K.C tell Colliers about the Economy & R.E?

 ECONOMIC SCOREBOARD			
WEEK ENDING	BULLS	BEARS	BEWILDERED
October 7	4	5 ★	4
September 30	5	5	5 ★
September 23	5	5	6 ★
September 9	3	4 ★	3
4-Week Avg.	4.3	4.8 ★	4.5

Note: A Tie "Bulls/Bears" Score results in a "Bewildered"

K.C.'s forecast at beginning of 2011:

"Light growth (<2% GDP) as we cut Big Debt"

K.C.'s forecast revised in June for 2H2011:

"No growth (0% to <1% GDP) while government can't act."



Weekly Market Recap – a subscription product

By K.C. Conway, MAI, CRE



KEY ECONOMIC FINANCE RATES

US UNEMPLOYMENT (AUG):

U-3 (official rate) 9.1%
 U-6 (total rate) 16.3%

Note: Last Updated Aug 5

JOBLESS CLAIMS: (AUG)

Initial (Aug 20th) 417,000
 Initial (Prior Wk) 412,000
 4-Wk Average 407,500

HOME FORECLOSURES:

CY 2011 1,100,000
 CY 2010 1,005,000
 CY 2009 918,000
 Dec 2010 69,847

GROSS DOMESTIC PRODUCT:

Q2 2011(1st Rev.) +1.0%
 Q1 2011 (Revised) +0.4%
 Q4 2010 +2.8%
 Q3 2010 +2.6%
 CY 2010 +2.9%

DISCUSSION ITEM

This week's item is a simple yet challenging one. Over the Labor Day weekend, we'll be rebuilding the "Key Economic and Finance Rates" to better address the volatility in this kind of market and offer better leading indicator insight. Added measures will include:


- GDP from other countries vital to our manufacturing industry and exports. (e.g. Hong Kong and Germany)
- The National Restaurant Performance Index has a near perfect correlation to calling U.S. recessions and recoveries.
- The Chicago FED National Activity Index is another measure introduced in this week's Statistic of the Week.
- AMP/Prologis Industrial Business Index is another valuable metric with respect to industrial real estate.

The Quote of the Week:

This week's quote of the week comes from a bank that is finding ways to be smarter despite the weight of more regulation. In a September 2nd story in American Banker by Jeremy Quittner titled "Zions, Drowning in Data, Finds a Clearer Way," the bank's CIO - Preston Wood – stated:

"While searching for the needle in the haystack, we discovered that more hay was being piled on."

The quote was in response to questions regarding how Zions Bancorp was finding ways to combat fraud, process ever increasing amounts of data that need to be "risk managed," and comply with all the new regulatory information requirements. Zions has figured out that you can't find the needle in the haystack until you can process all the hay being piled on. After all, the needle could be in the new hay being piled on. Zions Bancorp went back to ground zero and found a technology solution that maybe should be a mandate for application in the regulatory community to make the archaic and flawed nature of bank exams more efficient, consistent and relevant. The IT solution, by the way, was trading in Microsoft and Oracle data management software for a new kind of data linking software by Zettaset Inc. of Mountain View, Calif. The vendor is a specialist in link analysis, a technology in use for a decade. Banks have only recently started to use such systems. To my regulatory colleagues, here is a good example of bank innovation and efficiency that the bank figured out all by itself – and without any mandate from Dodd-Frank. Here is a closing thought on

 ECONOMIC SCOREBOARD				
WEEK ENDING	BULLS	BEARS	BEWILDERED	
September 9	3	4 ★	3	
August 26	4	5 ★	3	
August 19	3	6 ★	5	
August 12	5 ★	4	4	
4-Week Avg.	3.8	4.8 ★	3.8	

So where are we with respect to housing?

4 years through a 10 year problem

(Building pent-up demand via doubling-up of Households)



- 2004-2007 we built approximately 1.8 million housing units per year
 - 2004-2007 organic demand for new housing was approx. 800k units/yr
That is an over addition to supply of 4.0 million housing units
 - 69% homeownership to 62% homeownership is 4.0 million extra homes
That is a return of 4.0 million housing units to the market
-
- 4.0 million + 4.0 million / 800k demand per year = 10 years**

Denver - 2007Q2 Residential Highlights

These 3 METRICS really work! A TOOL that works!

HOME PRICE APPRECIATION

DENVER

OFHEO HPA (Q1 Data):

	1977-81	'82-'86	'87-'91	'92-'96	'97-'01	'02-'06	2005	2006	2007
US Avg	10.5%	4.8%	5.2%	2.5%	5.2%	9.5%	12.8%	12.6%	4.3%
CO Avg	14.2%	4.2%	0.3%	8.3%	8.0%	4.5%	4.8%	5.1%	3.3%
Denver Avg	16.4%	4.2%	-0.4%	7.8%	9.3%	3.8%	3.8%	3.1%	1.1%
Denver vs. US	Exceed	Lag	Lag	Exceed	Exceed	Lag	Lag	Lag	Lag

Above average HPA (8% 9%) accompanies strong job growth

Look at what has happened to HPA: 8%-9% per year 1992 to 2001. Now just 1% in 2007

EMPLOYMENT AND NEW HOUSING STARTS CORRELATED

DENVER

BLS JOB GROWTH:

	1977-81	'82-'86	'87-'91	'92-'96	'97-'01	'02-'06	2005Q1	2006Q1	2007Q1
# of Jobs (000)/yr	34.1	12.3	8.4	33.4	35.3	1.1	22.2	26.8	20.5
Avg Job Gr rate/yr	5.2%	1.6%	1.0%	3.6%	3.2%	0.1%	1.9%	2.3%	1.7%
Strong Gr Period (>2%)	>2%			>2%	>2%			>2%	

Job Growth collapsed to near 0% in '02-'06

US HOUSING STARTS:

	1977-81	'82-'86	'87-'91	'92-'96	'97-'01	'02-'06	2005	2006	2007Q1
Annual Avg (SF + MF 000s)	1,615	1,616	1,342	1,354	1,584	1,880	2,073	1,812	1,460
Annual Avg - S.Family (000s)	1,119	1,016	996	1,118	1,245	1,533	1,719	1,474	1,172
Annual Avg - MultiFam(000s)	497	601	347	236	339	347	354	338	288

Note: 2007Q1 data annualized

Builders didn't react to the reduced job growth, and built >30,000 units/yr.

DENVER

METROSTUDY:

	2000	2001	2002	2003	2004	2005	2006	2007Q1	
Annual SF Starts		n.a.	3,839	25,945	25,226	30,598	32,092	24,093	20,259
Annual Closings		n.a.	5,085	26,327	26,659	28,603	30,163	27,344	25,479
Total SF Inv For Sale		n.a.	14,196	17,876	17,456	20,405	22,934	19,745	18,604
Months Supply		n.a.	33.5	8.1	7.9	8.6	9.1	8.7	8.8
Price range for 50% of Sales									
VDL (Vacant Developed Lots)		n.a.	24,001	38,076	40,810	41,922	43,263	47,392	47,006

What Have I Learned from this Housing Crisis?

“You have to be nice to snakes!” – True Story

The Quote of the Week:

*“You have to be nice to snakes.” – Al Lewis
with MarketWatch*

This quote is from a story regarding a foreclosed home by JP Morgan Chase that is infested with garter snakes. Located in Idaho, the home was recently featured on Animal Planet. JP Morgan Chase has drawn criticism for attempts to rid the snakes by reptilian-rights activists arguing that:

“The eviction actions violate reptilian rights.”

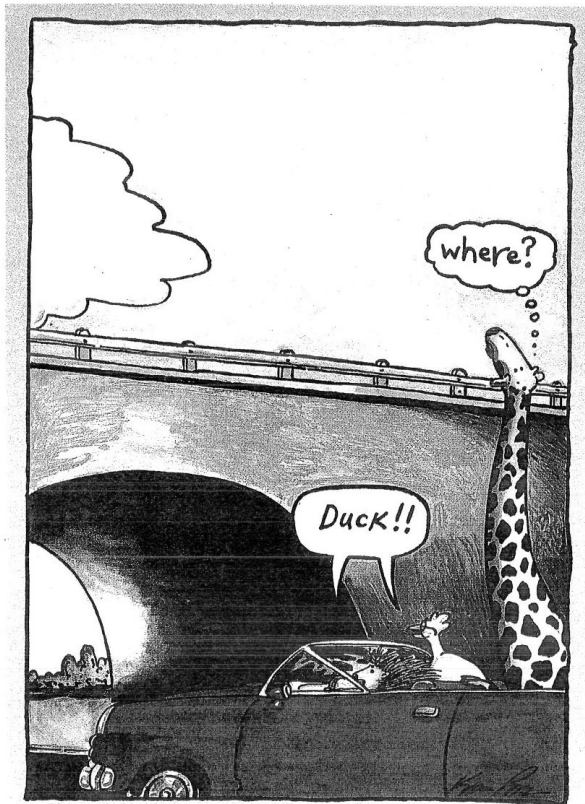
Idaho “Snake House”/hibernaculum



Conclusion:

“You have to be nice to snakes.”

***Recognizing
on-coming risks,
and then effectively
navigating them,
are two different things.***



Thank You

K.C. Conway, MAI, CRE
Executive Managing Director, R.E. Analytics
Colliers International
KC.Conway@Colliers.com